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INTERNATIONALIZATION STRATEGY OF SKYPRO TO THE WEST COAST OF THE UNITED STATES OF AMERICA

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Abstract

The underlying work project was carried out with the purpose of conducting an internationalization strategy of Skypro's footwear to the West Coast of the United States. In order to do so, an in-depth situation analysis regarding the company was performed with the objective to have the most insightful view, followed by a preliminary screening and a country ranking analysis to select the optimal market. It was concluded that the US was the most attractive country by evaluating both, its macro and industry indicators. For the implementation strategy, various entry modes were analyzed. Lastly, specific activities were developed in order to complete the internationalization process.

Key words: Internationalization; Skypro; United States; Implementation plan

Introduction

It is undeniable a growing impact that the airline industry has experienced worldwide with an increase in the number of airlines and consequently of the aviation professionals. Aware of this trend and of the demanding needs of its professionals, Skypro was created with the objective of offering those a footwear solution which excels on performance and comfort. Focused on this market segment since 2008, the company has recently experienced enormous success in international markets. Additionally, the United States is the world's leading country of the airline industry in market monetary terms (Euromonitor, 2016) and consequently, succeeding in this market is a priority for Skypro. In total, there are currently 11.282 thousand jobs created from the commercial aviation in the US (America, 2016). In fact, Skypro has already initiated its internationalization for the US by forming Skypro LLC, its subsidiary in the country, in August 2016. Thus, this report will analyze if Skypro made the right decision by expanding its operations to the US. The aim of this thesis is to evaluate the viability of this international expansion, by firstly

analyzing the company's current situation, followed by the assessment of possible attractive country markets and the consequent country choice, and lastly, by the development of the appropriate internationalization strategy having into consideration the market's specific characteristics. To do so, several frameworks will be used and when appropriate, a respective literature review will be made in each topic.

Methodology

In order to execute the underlying work project, both primary and secondary research was conducted. Regarding the primary research, four interviews with the Skypro's CEO and financial controller took place as well as one-on-one interviews with flight attendants of United and Virgin airlines. Additionally, several e-mails were exchanged with Skypro. The information gathered in relation to Skypro was in form of both quantitative and qualitative data.

Concerning secondary research, it includes information from books, articles, papers, reports, online databases, and other web resources.

Internal Analysis

Company Overview

Founded in 2004 by Jorge Pinto, Abotoa LDA. started as a family owned company. Currently, it is a noticeable Portuguese's small and medium-sized enterprise whose core business relies on the development and commercialization of specialized footwear for aviation professionals. These are mostly pilots and flight attendants but may also include staff responsible for the boarding procedure who also wear an airline's uniform. The company initiated its operations by becoming a franchise of a notorious Portuguese brand for women's wear, Lanidor. Soon it expanded its business to the footwear industry by signing a franchise contract with Aerosoles, an American footwear brand

specialized in the segment of comfort shoes. In 2007, together with Aerosoles, Abotoa developed its first line of professional shoes, a partnership that later in 2008 collected its profits through the signing of a business contract with TAP, Transportes Aéreos de Portugal, for the supply of the footwear for the Portuguese airline. In that same year, Abotoa also saw itself ending relationships with Aerosoles as a result of the insolvency of the group that managed Aerosoles's activities in Portugal, Investvar. With the main purpose of directing the company exclusively towards the aviation footwear, Abotoa decided to end its relationships with Lanidor and started to invest in the creation of its own brand, Skypro.

Skypro was established with the mission of developing innovative product lines that ensure the performance, well-being, protection, and healthy life of aviation professionals (Skypro, 2016). From the beginning, the brand was obligated to invest extensively in research and product development, as a natural consequence of the numerous agreements and requests established by airlines' associations when it came to aviation's suppliers. Its vision is to become a global leader among the aviation's footwear suppliers while being recognized for offering the best specialized shoes for aviation professionals worldwide. In order to accomplish so, Abotoa's efforts had been used on making Skypro grow inside this very specific market by prioritizing the value creation of the brand. Hence, Skypro prioritizes the research and development stages of the product by using advanced technology and extensive know-how in order to design innovative footwear solutions that ensure performance and comfort. Its offers combine five unique features, such as Anti-Skid, Anti-Static, Ambicork, Alarm-Free, and Innocuous leather, making them the only certified professional cabin crew shoes in the world, evaluated by the International Organization for Standardization (ISO) (Skypro, 2016). International airlines easily recognized the exceptional quality and performance of Skypro's professional footwear products, with the brand early expanding its product across borders. Recently, between January and June 2016, Skypro accounted

a 403,8% increase in sales when compared to the homologous period and 90,5% of its sales in that same period were originated from international clients (Skypro, 2016).

The early success of the brand generated attention from investors, which resulted in a capital increase of 3 million euros by welcoming new shareholders, Revitalizar Norte, forming in 2014 Abotoa S.A. Following this, the company decided to proceed with a rebranding process for Skypro, with the goal of expand and diversify, by adding other cabin crew uniforms and clothing pieces' elements. Since 2014, Skypro has been experiencing its most successful years, mainly accomplished through the considerable sales' growth in the Middle Eastern market by the signing of deals with Etihad and Qatar Airways. That same market registered a 64,4% increase between 2014 and 2016 in Skypro's total sales (*Appendix I*).

Currently, Skyros's product catalog (*Appendix II*) compromises footwear and uniform pieces of aviation's professionals, but also other pieces for the cruise, hotel, and military crews.

Business Analysis

Skypro's business model focuses on product development and supply-chain management, prioritizing an improvement in profit margin rather than sales volume. The company outsources both, the manufacturing and distribution. Thus, a lot of its success relies on its procurement, namely on their ability to negotiate, supervise, and control processes and costs. Currently, has twelve employees between their offices in Oeiras and São João da Madeira and allocates the majority of its human resources in commercial, marketing, and communication activities. Despite having the majority of its employees in its office in Oeiras, its headquarters is based in São João da Madeira, where it's R&D and quality management team is placed in order to work closely with suppliers.

As mentioned previously, Skypro sells not only footwear but also accessories and clothing to other crews. However, its core business will remain the footwear for aviation professionals, which accounts for a total of 90% of its business (Skypro, 2016). In terms of customers, Skypro serves

mainly extra-community (outside the European Union) airlines, with 96,6% of their customers being corporate *organizations* (*Appendix III*). Geographically, the company is greatly presented in the Middle-East and in the future, it intends to raise its presence in the United States. When operating in the corporate segment, the company negotiates the price and quantity, adjusting its margins regarding the order size and also personalizes the orders according to airline's specifications. Additionally, Skypro's customer's distributions are still unbalanced, with only 3,4% of its total sales coming from the B2C market. Skypro reaches personal customers through its own online store and multibrand stores at airports, spread between Portugal, Amsterdam, Berlin, Oslo, Stockholm, and Bucharest. In contrast to the B2B segment, such customers do not benefit from customization. Consequently, production is made beforehand in order for the products to be immediately ready for distribution as soon they are purchased.

Even though there is the awareness of the fact that the B2C business will most likely not be able to sustain its operations, achieving a higher presence in this segment is one of the company's goals. This happens mainly due to the discrepancy of the profit margin obtained in the two markets. When negotiating with B2B customers, Skypro accounts for an average margin of 38,02% (Skypro, 2016), a consequence of the large units involved. However, when selling to the B2C market, Skypro is able to generate an average profit margin of 73,8% (Skypro, 2016). In average, it is able to earn a margin of 39,2% (Skypro, 2016). With the goal of attracting the B2C segment on a larger scale, Skypro initiated formally its own operations in the United States (US) in 2016 by creating Skypro LLC, a subsidiary 100% owned by Abotoa S.A (Skypro, 2016). Lastly, the company is also testing the possibility of expanding its business to other cabin crews' industries.

Financial Analysis

Currently, Abotoa S.A has a value of 4.102.480€ in assets (*Appendix IV*). As mentioned above, in 2014 Abotoa welcomed new shareholders, as a result of an investment made in the company,

ambitioning higher goals, conceiving a more structured business organization and targeting one focused product with one clear mission. The efforts made in such regard, together with the talent in the R&D process resulted in prosperous business contracts with some of the world's top airlines which generated in a capital and a business valorization of the company. In 2014 and 2015, Skypro made between 1 and 1,5 million euros in sales in each year. However, just in the first semester of 2016, the brand was able to register 2.002.568€ in sales, accounting for a 403,8% homologous evolution (*Appendix V*). A similar growth was verified in terms of operating results, with Skypro generating 344.701,19 € of operating income in the first semester of 2016, which represented a 394,7% (*Appendix V*) homologous variation and the company's most profitable period. Such results were mainly possible through the contract celebrated with Etihad Airways in a value of over 1 million euros. Lastly, financial autonomy¹ has also been able to grow positively, with Abotoa S.A achieving in 2015 a mark of 80% in this regard.

Competitive Advantage Analysis

Competitive Landscape

When it comes to Skypro's core business, the company faces three types of direct competitors: comfort footwear brands, specialized stores for the aviation supply, and footwear companies for different kind of crews (Skypro, 2016). Therefore, it is possible to conclude that one company focused exclusively on the supply of aviation footwear does not yet exist or if so, experiences minimal competitive relevance.

Competitors in the comfort footwear's segment include international brands such as Piccadilly, Geox, Ara, Ecco, Easy Spirit Clarks and Hush Puppies. Piccadilly and Ecco are the most relevant

¹ *Financial autonomy* = $\frac{\text{Equity}}{\text{Total Capital}}$ = 80%

brands for the footwear supply, accounting respectively 35% and 20% of the aviation's footwear market share (Skypro, 2016). Furthermore, when it comes to the competitors covering the entire portfolio of aviation products, namely multibrand stores such as Crewoutfitters and Armstrong Aviation, Skypro competes with them not only in footwear products but also in clothing and accessories. Crewoutfitters is the most relevant multi-brand store, representing 15% of the uniform retail market in the US (Skypro, 2016). Additionally, Skypro also competes with companies which have their core business in the supply of footwear to different types of crews, such as Crew-Shoes. Moreover, Skypro's focus on product development and the pursuit of technological and technical improvements allowed the brand to present a footwear solution, which displays a clear competitive advantage in terms of differentiation features (*Appendix VI*).

Competitive Advantage: VRIO

When analyzing the competitive advantage, it is important to understand where the key strengths of a company lie. In order to conduct such analysis for Skypro, the VRIO framework will be used. The VRIO framework is an import internal analysis tool which allows to examine the internal environment of a firm through the analysis of its resources in terms of value, rareness, imitability and ultimately if the company is able to exploit these resources. Moreover, those are compared to the competition in order to understand if such resources bring a sustainable competitive advantage to the firm. Furthermore, a firm's resources platform corresponds to its core competencies, specialized assets, and architecture of relationships. The analysis provided (*Appendix VII*) by this tool provides important strategic implications, such as whether Skypro holds a sustainable or a temporary competitive advantage or a competitive parity. With reference to the analysis, it is possible to conclude that Skypro holds a temporary competitive advantage. This means that Skypro performs better than its competitors, due to the possession of valuable, rare, and organizational resources. Yet, this advantage will not be sustainable for a long period of time. By looking in detail

at Skypro's resources, it is observable that its core competencies include product development, innovation, procurement, and supply chain management. All of them are valuable and organizational, but only its product development and innovation are rare. As mentioned previously, the company's business model relies on the effectiveness of its supply chain management as well as its procurement due to their outsourcing approach on both, the manufacturing and distribution. However, none of these two competencies are rare and both of them are imitable, as a consequence of how regularly this business model is seen in footwear brands. Skypro invests on developing a premium product through the combination of technology and design innovation, compromising a bundle of features, which is missing in the offers of its competitors (*Appendix VI*). Thus, its product development and innovation are organizational, valuable, and rare competencies, which allows to offer a superior product, as the certification granted by ISO² evidences. However, despite the value of such competencies for Skypro, they are imitable, at least in a medium-long term, as competitors will invest in similar or even better technology and product features. On the contrary, Skypro's specialized assets, including brand and reputation, are considered as inimitable and both are perceived as valuable and organizational for the company. Despite its good reputation, as it is shown by the certification conceived by ISO, the small awareness of the brand in the B2C segment market does not allow the company to use its brand as a more powerful tool. Lastly, its architecture of relationships' resources includes its network of associations and customers, which provide valuable insights for the development of the world's best footwear for aviation professionals. Through this detailed examination of Skypro's resources, it can be concluded that the main factor preventing Skypro from achieving a greater competitive advantage is its brand, with little brand awareness and brand equity, in order to create a distinctive factor among customers. Additionally,

² International Organization for Standardization

its customer portfolio and consequently small presence in the B2C market, a market which would enable greater margins, is advised to be improved for further success.

Value Chain

Michael Porter identifies the value chain as the set of activities that a firm performs in order to deliver a certain product or service (Porter, 1985). Those activities can be classified as either primary, which are directly related to the manufacturing, sale, maintenance, and post-sale-service of a product or service, or support. Thus, the value chain displays total value and consists of value activities and margins. From this framework, it is possible to understand the contribution that each activity has to the business performance. To do so, it was calculated the proportion that the costs associated with each activity have in total revenues. Using the information collected through Skypro's 2016 1st semester balance sheet, it was possible to identify the costs per activity as it can be seen in *Appendix VIII*. The same approach was used to calculate the margin, using EBITDA and the contribution to each activity, which are summarized in *Appendix IX*.

From the primary activities, operations is the one that has a higher weight, with 64%. The importance of this value activity in comparison to the others is related to the small dimension of the company in relation to the revenue volume generated in the period analyzed. Additionally, the remaining activities have low weights, despite a higher percentage in technology and marketing and sales activities. Moreover, Skypro outsources inbound logistics, operations, and a part of its outbound logistics, conducting internally marketing, sales and customer service, and support. The inbound logistics and operations are directly connected, as Skypro selects and purchases the materials used for the production together with the factories. The company works with a total of thirteen factories. For the outbound logistics, Skypro has one employee responsible for the stock control, packaging, shipping, and expedition of its products. Following, distribution is conducted

by several transportation companies. Furthermore, the full list of Skypro's manufacturing factories, distribution companies, and materials suppliers (*Appendix X*) make it possible to understand the weight of external sources involved in the production and distribution of Skypro's products.

When it comes to the support activities, those include the infrastructure, procurement, technological development, and human resources management. All of these are conducted internally besides accounting as part of the firm's infrastructure activity.

Situation Analysis: SWOT

In order to complete Skypro's analysis and give a complete outlook of the company's internal and external environment, a SWOT analysis, see *Appendix XI* for complete analysis, was performed. From such analysis and in concordance with the aforementioned VRIO analysis, it is possible to conclude that Skypro's strengths rely on the uniqueness of its product and the use of a Blue Ocean strategy. By approaching a Blue Ocean strategy, which focuses on differentiation and demand creation by expanding existing industry boundaries, the company meets a market niche and creates uncontested market space (Kim & Mauborgne, 2015) among aviation professionals who first and foremost value superior quality and comfort. In terms of weaknesses, those are mainly related to its small company size and low brand awareness, which is also fortified by the low presence on the B2C market. General opportunities consist of a better employment of low-cost airlines, online commerce, latent industries, etc. On the other hand, general threats are related to the main concerns for the airlines' industry, namely terrorism and fuel prices, and the intense competitive rivalry.

Table 1: SWOT analysis of Skypro

Strengths	Weakness
S1- Differentiated product	W1- Low presence on the B2C market
S2- Low fix costs	W2- Low control on production
S3- High markup	availability
S4- Product development	W3- Low brand awareness

S5- Quality management S6- Market knowledge S7- Customization S8- Reputation	W4- High bargaining power of suppliers W5- Low Economies of scale
Opportunities	Threats
O1- Low-cost airlines O2- Extend the product line O3- Latent industries O4- E-commerce O5- Middle-East and African airlines O6- B2C segment O7- Increase distribution channels	T1- Intense competitive rivalry T2- Rising presence of comfort footwear as substitute T3- Easy to replicate T4- Terrorism and fuel prices affecting airline industry

Country Selection

This chapter will analyze the potential foreign markets for an international expansion for Skypro and the underlying reasons for the final choice. Country screening is one of the key tasks of the assessment of global market opportunities (Cavusgil, 2013). In this task, firstly, a preliminary screening using macro indicators was conducted, followed by a more in-depth analysis of each potential country, with a special focus on industry-related indicators. For the evaluation of the countries, Cavusgil suggests the use of one of two methodologies, gradual elimination or indexing and ranking. This report will follow the latter approach, in which scores are assigned to countries based on their overall market attractiveness. In the selection process, a set of market potential indicators was identified, with the purpose of later attributing a score to each country on each indicator. The score varies from 0, 2, 4, 6, 8 and 10 points, and the scales used for each indicator were chosen following a contextual and comparative analysis of each indicator. Additionally, specific weights were assigned to each indicator, considering its importance for the analysis.

Preliminary Screening

In an initial phase, a preliminary screening was performed with the goal to reduce the number of countries that warrant in-depth investigation to a manageable few (Cavusgil, 2013). In the process of grouping possible target countries, it was decided that the initial bench should include (*Appendix*

XII) all the countries which comprise North America (National Geographic, 2016). The choice of starting the country screening process in this geographic territory came as a consequence of Skypro's intention of developing its operations in the United States. The preliminary selection was made through the analysis of macro-level indicators, with the goal of eliminating countries in which it was likely to be either too risky or too costly for Skypro to extend its operations. The set of variables used and its respective description can be seen in *Appendix XIII* and the criteria including its weight, measure, score scale, and source in *Appendix XIV*. Furthermore, the preliminary screening index (*Appendix XV*) shows the best six countries for Skypro to internationalize to.

Country Ranking Analysis

The country ranking used to evaluate the potential best six countries used the same methodology and scoring approach as the preliminary screening. The difference among the two ranking analysis consists of the category of the indicators use. While in the preliminary screening only macro-level indicators were taken into account, the country ranking analysis relied on industry-level indicators as it can be seen in *Appendix XVI*. The final index (*Appendix XVIII*) shows the complete country's attractive analysis, which allowed to conclude that the United States (US) is indeed the most attractive country for Skypro to expand its operations to. Moreover, due to the large dimension of the country and consequently of the airline industry, this report will exclusively explore the internationalization of Skypro to the West Coast of the US. As agreed by Skypro and the remaining parts involved in this field lab, this report will cover a total of 18 states of the West Coast of the US, as it can be seen in *Appendix XIX*.

United States Analysis

This section will consist of a complete analysis of the country selected for Skypro to expand its business. As so, firstly an US environmental analysis will be performed in order to have a global

outlook of the circumstances regarding it, followed by a detailed observation of both the airline and the airline supplier industry in order to prepare for the business context that Skypro will face.

US Environmental Analysis: PESTEL

With the purpose of assessing the market environment when entering the US, a PESTEL analysis was performed in order to obtain a big picture regarding its Political, Economical, Societal, Technological, Environmental, and Legal environment. Such analysis allowed to conclude that the US offers favorable environmental circumstances for Skypro, due to its current growing economy, stable legal and political structure and high developed society (*Appendix XX*).

US Airlines Industry: An overview

The US airline industry is the world's leader on airlines' market size value and passengers carried (Euromonitor, 2016). In recent years, following a global trend, the industry has been marked by an intensive competitive rivalry, an expansion of domestic services towards international ones, and the decrease on airfares for scheduled airlines. Furthermore, the top three airlines by market share, American, Delta, and United Airlines (*Appendix XXI*) account altogether for 56,8% of the total market share of the industry. However, Southwest has been gaining some valuable market share due to the growing competition from budget airlines. Low-cost carriers' continued growth in 2015 and 2016 has been possible due to the ability of such airlines to attract value-conscious consumers by offering lower airfares and introducing the concept of ancillary revenue. Despite the decline of airfare rates and the decrease in passenger' unit revenue, several airlines posted healthy profit margins in 2015, and the number of US airlines passengers increased by 4% for that year (Euromonitor, 2016). Additionally, the industry is dominated by domestic airline companies, but multiple foreign operators such as Lufthansa, British Airways, and Emirates have grown substantially (Euromonitor, 2016). Lastly, in terms of future prospects, low-cost carriers and scheduled airlines are expected to grow at similar rates of 2% in the next five years (Euromonitor,

2016) and fuel prices will continue to dictate the progression of airfares. Regarding threats, at a global level but mainly for the US, the increase of terrorism raised concerns, due to potential terrorist attacks being likely to occur, which discourages the purchase of airline tickets.

Porter 5 forces analysis of the US Airline Supplying Industry

Following the understanding of the airline industry, it is important to narrow down the analysis and focus exclusively on the market Skypro is operating in, namely the supply of uniforms, footwear, and accessories for employees in the airline industry. To get a comprehensive outlook of how the airline supplying industry operates, flight attendants of United Airlines and Virgin American were interviewed. Despite the small sample collected, the purpose of the interviews (*See Appendix XXII*) was to gather relevance information regarding the global outlook of the supply of uniforms and footwear, as well as personal information regarding preferred brands and customer preferences concerning footwear. From the information provided (*See Appendix XXIII*), it was possible to conclude that the main airlines do not offer shoes to their aircrew members but do offer uniforms through an allotment system, where there is the attribution of a yearly budget for each employee to spend in different uniform pieces, available in an internal platform, which does not include footwear. Therefore, while it is more difficult to penetrate the uniforms market in which each airline company usually operates with an exclusive supplier, the US airline footwear supplying market is characterized by the presence of multiple international brands and few multi-brand stores which sell directly to the aircrew members. Through the use of the Porter 5 forces model (*Appendix XXIV*), it was possible to highlight that the bargaining power of buyers regarding footwear is high due to the wide range of options available and the low switching costs of the product; bargaining power of suppliers is also relatively high as in most cases, the companies which provide such products, outsource their production and distribution activities, depending on factories, suppliers,

and business partners; exposure to new entrants in the industry is not considerable, due to its market niche and great market knowledge characteristics, however, more footwear brands are growing their presence in the segment, increasing both the range of substitutes and competitive rivalry.

TOWS Analysis

Additionally, a TWOS analysis was performed with the goal of providing strategic choices for Skypro to explore its resources so it can take advantage of opportunities and minimize threats in the West Coast of the US airline market, taking into consideration the SWOT performed above.

Table II: TWOS analysis of Skypro

SO (Strengths to explore opportunities)	ST (Strengths to explore threats)
S1+S4/O2+O3: With Skypro's ability to create a differentiated product and invest in product development , Skypro can either explore even more additional product lines such as uniforms, underwear, and accessories, or explore latent industries , namely cruise, navy and private security industries.	S3/T4: Terrorism and fuel prices are the main threats for the US airlines industry and therefore impact directly its suppliers. By making use of their competence regarding product development , can explore different crews in order to be less dependent of the airline's industry and avoid being impacted by its threats.
WO (Opportunities to overcome weakness)	WT (reduce weaknesses and avoid threats)
W1+W3/O1+O7: There is an increase of low-cost airlines , which do not offer uniform and footwear to their employees. Additionally, explore new distribution channels will allow to reach consumers more effectively. Therefore, by attracting the flight attendants and commercial airlines of it, it is possible to increase the presence in the B2C segment , which will also contribute positively to an increase of the brand awareness .	W3/T1/T3: With the tendency in the industry of not granting footwear, the competitive rivalry in the market rises even more. As so, Skypro will compete even more with international footwear brands such as Hush Puppies and Aerosoles when entering the US. Therefore, increasing its low brand awareness will be even more important in order to diminish its competition, as there are many options when it comes to a footwear solution.

Implementation

Regarding implementation, firstly it is important to mention that following the creation of Skypro LLC by Abotoa S.A in early 2016, there was the hiring of a professional services provider, located in Atlanta, Georgia, and the purchase of 6548 units of Skypro shoes. Furthermore, there was also the need to conduct a geographic analysis of the airline industry in the West Coast of the US. From

Appendix XXI and *Appendix XXV*, by observing the number and distribution of airports recognized as a “Large Hub”, those which have 1% or more of the annual passenger boardings (Federal Aviation Administration, 2016), through the West Coast and the use of those airports as an airline’s hub it is possible to conclude that California and Texas are the states from the West Coast in which the airline industry is more active. Moreover, considering the analysis made regarding the supply of US airlines and Skypro’s current situation, it was concluded that entering the US by being a provider of uniforms and clothing would be a not plausible choice. Therefore, this section will consist of the development of the implementation plan for Skypro to expand exclusively its footwear to the US. As so, it will be covered the entry mode approach, strategy taken to internationalize, through the use of the marketing 8P’s and 4M’s framework and its respective financial analysis.

Entry Mode

Skypro has already completed its entry process to the US through the launch of Skypro LLC, the company’s subsidiary in the territory. Nonetheless, this section will analyze each possible entry mode and evaluate the most appropriate one. The choice of the entry mode must be a decision based on the company’s goals and objectives; degree of control desired; Skypro’s resources and capabilities; characteristics of the product; value-adding activities that Skypro is willing to perform; types of risk inherent to each entry mode; characteristics of the host market; business partner in the market and nature of competition and the current possibilities and competencies of Skypro (Cavusgil, Knight, & Riesenberger, 2008). Furthermore, generally, it is possible to identify three categories of entry modes (*Appendix XXVI*), international transactions, contractual relationships, and equity or ownership-based business activities. Each category was analyzed in terms of degree of control that it provides, its inherent risk, the commitment of resources, and the flexibility that it

exhibits. By evaluating these, the most appropriate approach for Skypro to enter in the US airline footwear market is exporting, an entry strategy with low risk, commitment of resources and high flexibility, appropriate for an SME. Additionally, exportations can be direct or indirect and it is important to understand which will benefit the firm the most. Indirect exportation is the process of exporting through domestically based intermediaries, adding a middleman to the distribution channel. With this approach, Skypro would not have control over its products in the US. On the other hand, by exporting directly there is not the need of using a third party to export the products to the foreign market. This would grant a higher degree of control and capitalization of economies of scale. Additionally, Skypro intends to keep producing its products in Portugal, to maintain the product's quality. Indirect exportation has a lower cost and risk than direct exportation, as the middlemen will be the one responsible for the performance "overseas". However, the lack of control inherent to this entry mode seems more hurtful to Skypro than the cost saving that would occur. Hence, direct exporting seems the most ideal entry mode.

Implementation Plan

This section will specify and explore the set of activities that need to take place in order to successfully internationalize Skypro in the West Coast of the US. In order to do so, the Marketing 4P's will be used, followed by the 4M's framework to quantify the necessary resources. Through the use of the marketing 4P's, it will be explained how to take Skypro's footwear to the US, defining it in terms of product, place, promotion and price:

Product: According to the flight attendants interviews (*Appendix XXIII*), the only specific recommendations regarding footwear are that shoes have a leathery look and the ability to be polished. Since the goal is to reach the B2C market, the product must be sold in its standardized version. Therefore, the products to be sold consist of the offers available in Skypro's online store.

Place: E-commerce will be the immediate channel, as Skypro's online store is already operating in the US. Additionally, the products should also be sold in online specialized stores such as Crew Outfitters and general shoe providers such as Zappos, as suggested in *Appendix XXVII*.

Even though E-commerce will have a higher customer reach while making use of low costs, physical presence is of great importance as it remains the most popular shopping channel for consumers and can't currently be matched by online distribution channels when it comes to customer experience (Shackleton, 2016). Additionally, it also helps to stimulate brand awareness and customer loyalty. Thus, the combination of online and offline channels is the ideal solution and offline distribution should be provided, through the partnership for distribution with retailers of the matter such as Crew Outfitters, M & H Uniforms, and Tarpy Tailors. In terms of geographic placement, the states with the presence of such specialized stores were identified (*Appendix XXVIII*). Regarding Crew Outfitters, the biggest chain of the matter, due to the lack of information in relation to the performance of each store, it is suggested to negotiate the distribution with all the stores of the chain present in the West Coast (*Appendix XXIX*).

Lastly, in a more advanced stage of the internationalization process, Skypro should launch its own store, as it helps to build a strong brand image in the mind of consumers, offers a better customer service and eliminates intermediaries. Geographically, the choice for the opening of its own store must be taken by having into consideration airport movement, presence of airlines, potential customers, presence of specialized stores, and renting costs in the respective state. The analysis made in *Appendix XXX* of such parameters allowed to conclude that California was the ideal state to launch its own store as it had the highest potential demand. Consequently, Los Angeles international airport represents the best choice as it has the presence of multiple airlines and biggest movement. Additionally, it also has a lower price per square meter when compared to San Francisco International, the other large hub airport located in California.

Promotion: It is important to spend sufficient resources to raise awareness and convince customers of the superior quality. However, it should not be considered a heavy budget for promotion activities as the intention is not to counter actions from competitors. Therefore, those will consist of advertisement on airline-related online platforms, airline magazines and signing of IATA's premium membership (*Appendix XXXI*).

Price: Despite the fact that the prices for the US are already set up in the online store, those should be reviewed in order to guarantee that the pricing strategy used is appropriate for the market. In order to do so, costs, customer's willingness and prices of the competitive products should be taken into the analysis (*Appendix XXXII*). The average cost per unit for the B2C market in the US is \$27,69 and its average revenue is \$139,95. Additionally, its average margin is \$112,26, representing an 80,21% markup, an incredibly high-profit margin (Skypro, 2016). By the analysis of both, the price of competitors and flight attendants' price range to spend in footwear, it is possible to conclude that Skypro offers a relatively expensive product for the segment in which it competes. Therefore, it is recommended for Skypro to decrease its price in the US of about 20% in order to become more competitive and to penetrate the market easily.

After covering the four dimensions of the Marketing 4P's, it is now possible to quantify the resources associated with this project. In order to do so, the 4M's framework will be used, quantifying the financial (Money), human (Men) and temporal (Minute) resources needed. Following that, the framework also identifies the KPI's (Memo) to be used to analyze and evaluate the management performance of the project. Therefore, the necessary resources for the implementation of the project are summarized in the table below. Additionally, it should be mentioned that the projections below were estimated considering a five-year plan.

Table III: Monetary, Temporal and Human resources needed for the implementation of the project

Activity / Resources	Money	Time	Man
Firm Infrastructure			
Hiring of a professional services company Responsible for the warehousing, packaging, handling and UPS for distribution.	\$3 000 monthly + 5% sales in y0; \$4 000 monthly + 2,5% sales in y1 to y5	-	-
Hiring of a commercial employee	\$125 000 yearly	1/2 months	1
E-Commerce			
Transportation of footwear stock to the USA	\$2,769 + (0,3* Q)	20 to 25 days	-
Shipment of orders to customers E-commerce	\$12,5 per unit	1 to 2 days	-
Advertising			
Online Advertising (Google Ads)	\$3 000 per year one (5% avg growth)	-	-
IATA premium partner	\$25 000 per year	-	-
Airline Magazines	3000\$ per year (4 editions)	-	-
Retail distributor			
Search and negotiate with retail distributor	-	1 to 2 months	1
Transportation of orders to the retail distributor	in charge of the partner	1 to 2 days	-
Airport store			
Renting of a 30 m ² store space in Lost Angeles airport	\$5000	-	-
Transportation of orders to store	\$300 in optimistic scenario in \$216 in conservative	-	-

To conclude the framework, the balanced scoreboard (*Appendix XXXIII*) will be used to identify the objectives and KPI's for the project, evaluating it in four different perspectives, financial, customer, business process and learning and growth (Kaplan & Norton, 1993).

Financial Analysis

The last part of this internationalization project is a financial analysis, which was performed to understand the viability of the project by the calculation of its Net Present Value (NPV) assuming a five year period. In order to build the Profit & Loss and the Cash-Flow statement for the calculation of the NPV, a model that is based on several assumptions will be taken into account, using a two scenario approach. As so, a conservative and an optimistic scenario will be described, with the difference among the two consisting on the estimation of the sales for each period. To

simplify the calculations, it was not taken into account the sales made so far in the US market, ignoring also the stock purchased previously by Skypro LLC. In order to compute the NPV of the project, there was the need to determine its respective discount rate, through the use of the CAPM approach, adding USA's respective risk premium (*Appendix XXXIV*) in order to consider in the analysis the additional risk of investing in the country. Thus, a discount rate of 6,58% will be used. The two scenario approach will provide a positive and a negative outcome, in comparison to the realistic scenario, indicating that the reasonable result for the project will likely belong between the two. The revenues were estimated through four channels, Skypro's online store, general online shoes provided, retailer partners, and Skypro's physical store, assuming a unit average cost of \$27,69 and an average unit price of \$139,95 (Skypro, 2016). Additionally, a 20% margin to E-commerce retailers and a 64% margin to retailer partners were assumed. In both, the optimistic (*Appendix XXXVII*) and conservative (*Appendix XXXVIII*) scenario, the respective potential demand was calculated for each revenue stream, having into consideration the total number of commercial pilots and flight attendants (*Appendix XXXVI*) and assuming that both purchase footwear twice per year and flight attendants use two pairs per flight, while commercial pilots only use one. Ground staff and air controllers were not included in the potential demand due to the lack of consistent information in this regard. Thus, this project will present underestimated projections. Additionally, the market share was indicated, as well as the average sales growth rate to take into account for the life of the project. In relation to the necessary investment, operating, advertising, human resources, and infrastructure costs were taken into account (*Appendix XXXIX*). Moreover, in order to simplify the estimation of the NPVs, it was decided to not include the working capital. Lastly, depreciation costs were also not included, due to the lack of physical assets. Thus, the estimated NPV for the optimistic scenario (*Appendix XL*) was of \$733.130,05 and for the conservative scenario (*Appendix XLI*) was \$210 532,04. With a positive result in both scenarios, it

is possible to affirm that Skypro should penetrate the US B2C market, under the strategy developed in this work project.

Recommendations

With the purpose of completing the implementation plan developed throughout this work project, it is important to discuss further recommendations. Firstly, it is of extreme relevance for Skypro to perform extensive market research regarding the US aviation footwear market, in order to understand key touching points and customer preferences. In relation to retail partners, it is recommended to continue to search, identify, and select further local distributors to leverage a possible dependency in the future. Additionally, there must exist a flexible pricing strategy, as it is an extreme price sensitive and competitive market. Price promotions and quantities discounts are some of the pricing strategies recommended to promote purchases. Lastly, it is mandatory for Skypro to not forget to approach the B2B segment in the US market, as it will remain the segment with the biggest contribution to the company. Establish direct contact with the biggest US airlines to promote relationships and generate possible business agreements must be the initial tactic used.

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